

**Amendment 3**  
**TennCare Decision Support Services (TCDS)**  
**RFS # 318.65-186**

**Responses to Written Cost Proposal Questions**

<b>Item #</b>	<b>Question</b>	<b>Response</b>
	<b>Note: in the questions that follow, any vendor's restatement of the text of the <i>Request for Vendor Presentations</i> (the “<i>Request</i>”) or the <i>Cost Proposal Notice to Vendor</i> is for reference purposes only and shall not be construed to change the original wording.</b>	
1.	Some of the responses have provided new information that may alter our approach. How would you like us to address this issue since our technical proposal has already been submitted.	<b>In any instances in which the State has provided a written response that would have the effect of amending the State’s requirements, and therefore the vendor’s technical proposal, the awarded vendor may make such modifications to its technical proposal prior to contract execution.</b>
2.	We request clarification of the answers to questions 4 and 13 which indicate the number of claims and encounters is equal to 97 Million per year. In developing our approach, we used information contained in a report entitled "Development of Per Capita Costs for the TennCare and TennCare Partners Programs for State Fiscal Year 2003" dated May 2002 and completed by PriceWaterhouseCoopers. This report states that TennCare enrollees receive about 115 million "units" over 3 years, 38 million units per year, about 40% are pharmacy units and units are identified as claims with the exception of pharmacy (units=prescriptions); labs, radiology and professional (units=services); and inpatient hospital (units=days). Because the number of claims and encounters appears high for an enrollment of 1.2M, please clarify your definition of an encounter.	<p><b>The numbers provided by TennCare are based on defining claims/encounters as follows:</b></p> <p><b>An institutional claim or encounter (e.g. hospital encounters, nursing home claims) is a single record. Professional component encounters and claims are line item (e.g. physician billings by procedure code). There can be multiple line items contained on a claim or encounter document.</b></p> <p><b>It is our understanding that the Price Waterhouse Coopers report is primarily focused on MCO medical expenditures and Pharmacy expenditures. This would mean that other claim types such as MediCare Crossover, LTC, MR, etc., would most likely not be included in the report.</b></p>
3.	<p>The issue relates to the question of whether and how we can provide cost and scope information regarding possible options that we noted on Page 1-5 of the Executive Summary and elsewhere in our proposal. These optional items are not required to address the specific requirements of the Request for Presentation, but are closely related capabilities that [vendor name deleted] believes would be very valuable to the State to support key aspects of Governor Bredesen's TennCare reform strategy.</p> <p>For example, our proposal listed fraud and abuse detection and investigation capabilities and services, including advanced fraud detection algorithms and tools that [vendor name deleted] currently uses to support other state Medicaid agencies as well as Medicare fraud detection for [state name deleted] and other states such as [state name deleted]. Nowhere does the Request for Presentation even mention fraud and abuse, although this</p>	<p><b>The TCDS system specified by the <i>State in the Request for Vendor Presentations</i>, dated August 6, 2004, is a core system. The State recognizes that there may be additional functionality that may have to be added throughout the life of the contract. However, the vendor is not required to cost any additional optional services in its Cost Proposal in response to this procurement effort.</b></p> <p><b>All costs must be included within the “One-Time, Fixed Implementation Cost” (Cost Schedule A) or the “Monthly Cost Per Member on the TennCare Rolls” (Cost Schedule B). (Please see the <i>Cost Proposal &amp; Scoring Guide</i> included as a part of Amendment 2, which was published on September 21, 2004.) The vendor must not indicate any other cost(s) in response to this procurement effort.</b></p> <p><b>As stated in introduction to the <i>Cost Proposal Notice to</i></b></p>

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	<p>is a fundamental decision support function for other Medicaid agencies and a matter of substantial concern to the Governor.</p> <p>The instructions for the cost proposal seem to preclude the inclusion of any information beyond the very limited cost form, regardless of how beneficial that information might be to the State. How may we address this matter?</p>	<p><i>Vendor</i>, paragraph 2, which was published on September 15, 2004, <b><u>“The Cost Proposal shall record only the cost proposed as required, and shall not include any additional documents or addenda, or record any other rates, amounts, or information. It shall not record any text that could be construed as a qualification of the cost proposed.”</u></b></p>
4.	<p>Is January 1, 2005 a fixed date independent of the start of the contract, or will it be changed depending on the actual start date?</p> <p>For example: Will January 1, 2005 be changed to be 90 days after contract start date?</p>	<p>The January 1, 2005 is the effective date of TennCare reform, and it is a fixed date independent of the start date of a contract awarded pursuant to this procurement effort. Please see the <i>Introductory Letter from the Chief Information Officer (the Letter)</i>, page 2, published on August 6, 2004. The TennCare reform effective date will not be changed to accommodate the start date of the TCDS contract.</p>
5.	<p>[a] How will the state combine the technical and cost scores?</p> <p>[b] What is the weight of cost and technical in the overall evaluation?</p>	<p>[a] The State will not combine the vendor presentation and the cost proposal scores.</p> <p>As stated in the <i>Request for Vendor Presentations</i>, Introduction, paragraph 2, published August 6, 2004: “The award under this procurement will be based on a <u>two-stage</u> assessment of the vendor’s qualifications. The first stage is a verbal and written Presentation of the vendor’s qualifications to perform the requested services. The second stage is an evaluation of the vendor’s proposed cost to provide the services.”</p> <p>The first stage, the verbal and written presentation, is a qualification stage to determine which vendors are responsive. The State’s procedures for making this determination are defined in the <i>Introductory Letter from the Chief Information Officer (the Letter)</i>, pages 2-3, published on August 6, 2004. To summarize, the TCDS Work Group will score the Presentations, including the written proposals; the State will average these scores for each vendor to determine each vendor’s final Presentation score, which will then be evaluated in accordance with the procedures given in the <i>Letter</i> to determine vendor responsiveness. Vendors will submit their Cost Proposals, and the State will open and score the Cost Proposals of all responsive vendors.</p> <p>The State will then make an award based on the results of the Cost Proposal scores only. As stated in the <i>Letter</i>, the State shall “shall enter into contract negotiations with the vendor with the highest Final Cost Proposal Score.”</p> <p>[b] Not applicable. See the foregoing.</p>
6.	<p>Can the State confirm that vendors should include the cost of 200 end users rather than the 120 currently defined in the technical proposal?</p>	<p>There is a distinction between simultaneous on-line and total users. The State anticipates 200 total users and 120 simultaneous on-line users.</p>

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7.	<p>Can the State confirm that vendors should include pricing in their Cost Proposal to train only two (2) State of Tennessee personnel on system content and functionality?</p> <p>Can the State also confirm that these two (2) State of Tennessee personnel will then train the remaining State of Tennessee users (i.e., a train the trainer approach) and that vendors should not include such training in their Cost Proposal, even if their technical proposals included training for all 120 users?</p>	<p><b>That is the agreed upon approach. The State confirms the Vendor's understanding in both cases.</b></p>
8.	<p>With regard to Amendment 2 and the Cost Proposal and Scoring Guide form, [a] what is meant by "Year 1", "Year 2", etc. in Cost Schedule B? When does "Year 1" begin? [b] Is "Year 1" a full 12-month period of operations that would begin only after implementation is completed, or is "Year 1" to be defined as the first 12 months from the date of execution of the contract? [c] How does this relate to the term of the contract as described in the Request for Presentations? Specifically, page 2 of the RFP stated that – "The contract that results from this procurement effort will be a three (3)-year contract with options to renew for an additional two (2) years." Also, page 21 of the RFP stated that – "The State reserves the right to extend this Contract for an additional period or periods of time representing increments of no more than one year and a total contract term of no more than five (5) years..."</p>	<p>[a] All "Years" (Year 1, Year 2, etc.) on Cost Schedule B refer to Contract years. For example, if the Contract were to begin on October 15, 2004, then Year 1 would run from October 15, 2004 through October 14, 2005; Year 2, from October 15, 2005 through October 14, 2006; and so on for the remaining Years.</p> <p>[b] Year 1 is defined as the first twelve months from the begin date of the Contract, as described in Contract Section B.1. The only relationship between Year 1 and the Operations begin date pertains to billing. The contractor must bill the State for Operations services at the Yearly rate in effect at the time the services were provided. Therefore, if operations do not begin until month 7 of Contract Year 1, then the vendor would have 6 months to bill the State at the Year 1 rate; at the beginning of Contract Year 2, the Year 2 rates would apply.</p> <p>[c] If, for example, the Contract begins on October 15, 2004, then the initial term of the contract will run through October 14, 2007. At the end of this term the State would have the option to either let the contract expire, or process an amendment in accordance with Contract Section B.2, to extend the Contract for an additional period of time, of up to two additional years, meaning that the new expiration date of the Contract could be as late as October 14, 2009. This would result in a total contract term of 5 years.</p>
9.	<p>If "Year 1" in Cost Schedule B means the first 12 months from date of execution of the contract rather than the first 12 months of operations after completion of the implementation, then [a] how will the State calculate the Final Cost Proposal Score? If "Year 1" could include both implementation and operational activities, then how would the State calculate the Final Cost Proposal Score? For example, implementation could actually take eight (8) months and then there would be four (4) months of operations during "Year 1" of the contract. In this example, how will the State really know at this point in time how many months of operations to include in the cost calculation for "Year 1"? What if implementation</p>	<p><b>The Cost Proposal Scoring Guide (the Scoring Guide) is designed for evaluation purposes, and is not meant to reflect the actual timing of the phases of the project, as the vendor seems to be implying in its question.</b></p> <p><b>The Scoring Guide and the formulae used do not require the State to know, in advance, how many months Implementation will take, or when Operations will actually begin. The Scoring Guide works independently of when Operations begin.</b></p> <p><b>With regard to Implementation, the vendor is proposing a "One-Time, Fixed Implementation Cost." This amount may not be zero or blank. This amount</b></p>

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	requires fourteen (14) months, then contract “Year 1” would have zero operational cost. (Our conclusion is that the current Cost Proposal and Scoring Guide form will not work unless “Year 1” is defined to mean the first 12 months of operations after implementation.)	<p><b>will be proposed on Cost Schedule A, and the State will transcribe it in the “Implementation Evaluation Cost Amount” cell on Cost Schedule A.</b></p> <p><b>For Operations, the vendor must propose a single “Monthly Cost Per Member (MCPM) on the TennCare Rolls” for each of the five Years. In other words, the vendor will enter an MCPM in each of the five years, entering no zeroes and leaving no years blank. The State will add the amounts so entered and will transcribe the sum in the “Operations Evaluation Cost Amount” cell on Cost Schedule B.</b></p> <p><b>The State will transcribe the “Implementation Evaluation Cost Amount” from Cost Schedule A to the Implementation “Evaluation Cost” cell on the Final Cost Proposal Score table.</b></p> <p><b>The State will then multiply the “Operations Evaluation Cost Amount” from Cost Schedule B by 12, and then by 1,250,000, to yield the Operations “Evaluation Cost” on the Final Cost Proposal Score table. This step is done to correct for the disparate magnitudes in the Implementation Evaluation Cost (which could be in the tens or hundreds of thousands of dollars, compared with the Operations Evaluation Costs (which might be a few cents, per-month, per-member).</b></p> <p><b>The State will then multiply the “Evaluation Cost” amounts for Implementation and Operations by their respective weights--in each case, by 1--to yield the “Weighted Cost” for each. These are then added to produce the “Evaluation Cost Amount” that is used in the formula at the bottom of the Final Cost Proposal Score table.</b></p> <p><b>See the example in Attachment 1 below.</b></p>
10.	With regard to the Final Cost Proposal Score form, how will the Evaluation Cost column for operations be calculated? The stated formula is “Operations Evaluation Cost Amount from Cost Schedule B: Operations Cost Schedule X 12 (months) X 1,250,000 (approx. number of TennCare recipients).” This formula is unclear and perhaps incomplete. Is the Evaluation Cost the 5-year sum of the stated calculation? Will 12 months be included in the calculation for “Year 1” even if some or all of “Year 1” is implementation and there are only a few months or even no months of operations? Please provide specific hypothetical examples of how the formula would work.	<p><b>The formula is complete. The product of the calculation is entered into the column labeled “Evaluation Cost” on the “Final Cost Proposal Score” table.</b></p> <p><b>See also the State’s response to Item #9 above, and the example in Attachment 1 below.</b></p>
11.	On Cost Schedule B, [a] what is meant by the “Sum of Yearly Per-Member Costs”? [b] What is the exact formula of how this figure will be calculated? [c] Please provide a specific example. [d] How and where will this figure be used in the Final Cost Proposal Score form? [e]	<p><b>[a] It is the sum of the “Monthly Cost Per Member (MCPM) on the TennCare Rolls” that the vendor has proposed for each of the five years.</b></p> <p><b>[b] MCPM (Year 1) + MCPM (Year 2) +</b></p>

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	What if “Year 1” of the contract has less than 12 months of operations?	<p><b>MCPM (Year 3) + MCPM (Optional Year 4) + MCPM (Optional Year 5) = “Operations Evaluation Cost Amount”</b></p> <p>[c] See the example in Attachment 1 below.</p> <p>[d] The State will multiply the “Operations Evaluation Cost Amount” (from Cost Schedule B) by 12 and then by 1,250,000. The result will be entered into the “Evaluation Cost” column for Operations on the Final Cost Proposal Score table. See the State’s response to Item #9 above and the example in Attachment 1 below.</p> <p>[e] The question is not relevant, because the <i>Scoring Guide</i> is not designed, and was never intended, to take into account project timing. The <i>Scoring Guide</i> is an evaluation model, a common ground to compare vendors with potentially different approaches to project timing.</p>
12.	How can we provide cost and scope information regarding possible options that we noted in our proposal? These optional items are not required to address the specific requirements of the Request for Presentation, but are closely related capabilities that we believe would be very valuable to the State to support key aspects of Governor Bredesen’s TennCare reform strategy. The instructions for the cost proposal seem to preclude the inclusion of any information beyond the very limited cost form, regardless of how beneficial that information might be to the State.	See the State’s response to Item #3 above.
13	Will the questions that the State received which precipitated the changes in the cost format and process be included in this Q&A response round?	<b>Written questions pertaining to cost that were received after the question responses were published on September 15, 2004 are included within this Q&amp;A round.</b>
14.	What is the State's schedule and date for a final vendor selection?	<b>The State has not assigned specific dates to the remainder of the process beyond the most recently amended Cost Proposal Due Date.</b>
15.	Since the costs for this project are fixed and will depend upon the enrollment for reimbursement to the vendor(s), is there a floor on the enrollment below which TennCare will guarantee the population will not decrease beyond? Otherwise, if there is a significant decrease in population, all of the estimates for sizing, performance, and subsequent cost and economies of scale go out the window.	<b>No. TennCare hasn’t been below 1.2 million since 1995. There is no floor on the enrollment for reimbursement to the vendor for this project.</b>
16.	Does TennCare have a date in mind for awarding of the contract and how soon following that are they expecting work on the contract to begin?	See the State’s response to Item #14 above.
17.	Some of the earlier responses have provided new information that may alter our approach. How would you like us to address this issue since our technical proposal has already been submitted?	See the State’s response to Item #1 above.

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18.	<p>We request clarification of the answers to questions 4 and 13 which indicate the number of claims and encounters is equal to 97 Million per year. In developing our approach, we used information contained in a report entitled "Development of Per Capita Costs for the TennCare and TennCare Partners Programs for State Fiscal Year 2003" dated May 2002 and completed by PriceWaterhouseCoopers. This report states that TennCare enrollees receive about 115 million "units" over 3 years, 38 million units per year, about 40% are pharmacy units and units are identified as claims with the exception of pharmacy (units=prescriptions); labs, radiology and professional (units=services); and inpatient hospital (units=days). Because the number of claims and encounters appears high for an enrollment of 1.2M, please clarify your definition of an encounter.</p>	<p><b>See the State's response to Item #2 above.</b></p>

## ATTACHMENT 1 COST PROPOSAL SCORING EXAMPLE

The following is an example only and bears no relation to anticipated responses. In the example below, notes are entered in parentheses, with a legend as follows:

(V) = entered by vendor

(S) = calculated or transcribed by the State

(E) = explanation of calculation

### *Cost Proposal & Scoring Guide*

COST PROPOSAL & SCORING GUIDE	
NOTICE TO PROPOSER: This Cost Proposal MUST be completed EXACTLY as required.	
PROPOSER NAME:	Any Proposer, Inc. (V)
SIGNATURE & DATE:	<i>Vendor Signature (V)</i> <i>Date (V)</i>
<p style="text-align: center;"><b>COST PROPOSAL SCHEDULES</b></p> <p>The proposed costs, detailed in the tables on the following pages, shall indicate the proposed price for providing the entire scope of service including all services as defined in Sections 2, 3, and 4 (<i>Description of Services and Written Proposal; Timeline Objectives and Critical Dates; and Performance Requirements</i>), of the <i>Request for Vendor Presentations</i>, as well as Section A of the Contract (collectively, the TCDS Requirements).</p> <p>The proposed cost and the commitments described in the vendor presentation associated with this cost shall remain valid for at least 120 days subsequent to the date of the Cost Proposal opening and thereafter in accordance with any resulting contract between the Proposer and the State. All monetary amounts are United States currency.</p> <p><b><u>Warning: The Proposer may not leave any Proposed Cost cells blank.</u></b></p>	



**COST SCHEDULE A – IMPLEMENTATION COST SCHEDULE**

In the cell labeled “Proposed Cost” below, the Proposer must enter a one-time, fixed cost to perform all services related to the implementation of the TCDS.

The State will compensate the Contractor for Implementation as follows: On January 1, 2005 the State will assess the percentage of TennCare data that is loaded on the vendor's TCDS system, and available for the State's reporting purposes. The vendor may then invoice the State for a portion of the One-Time, Fixed Implementation Cost proposed below that correlates with the percentage of data that has been loaded and is available for reporting use as of January 1, 2005. For example, if the percentage of data loaded and available for reporting use is 35%, then the vendor may invoice the State for 35% of the One-Time, Fixed Implementation Cost; the remainder to be paid upon completion of loading of the full six (6) years of TennCare data.

There are only two payment points for the Implementation Phase: (1) the payment associated with the January 1, 2005 load percentage; and (2) the final payment upon the Contractor completing the loading of the entire six years of data.

**NOTE:** The Proposer may not enter zero (0) for, or leave blank, the Proposed Cost below. This cost must reflect the vendor's estimate of its true one-time, fixed implementation cost for TCDS.

Cost Item Description	Proposed Cost
One-Time, Fixed Implementation Cost	\$250,000.00 (V)
<b>Implementation Evaluation Cost Amount:</b> <i>(For State use only; transcription of Proposed Cost above)</i>	\$250,000.00 (S)



**COST SCHEDULE B – OPERATIONS COST SCHEDULE**


In the cells labeled “Proposed Cost,” for each year listed, the Proposer must enter the Monthly Cost-Per-Member rate that it will charge to operate the TCDS system, and provide all related services, as described in the TCDS Requirements. The costs below are proposed with the knowledge that the costs for these services shall be assessed and billed monthly, in arrears after the services have been provided, and shall be based upon the number of TennCare recipients on the State’s TennCare membership rolls as of the fifteenth (15) day of the billing month in question (the “population basis”). Note that the population basis shall be adjusted to correlate with the percentage of TennCare data loaded on the Contractor’s TCDS system, and available for the State’s reporting purposes, as described in the following paragraph. The rate shall apply for the entire contract year as proposed and shall not be subject to increase during that year.

The first month for which the vendor will bill the State for Operations shall be no earlier than January 2005. The State shall compensate the vendor for Operations Cost as follows: On January 31, 2005 the State will assess the percentage of TennCare data that is loaded on the vendor’s TCDS system, and available for the State’s reporting purposes. The State will then apply this percentage to the population basis prior to using the population basis to determine the invoice amount. In other words, the formula at the end of each month of Operations services shall be: Monthly Operations Invoice Amount = Monthly Cost Per Member on the TennCare Rolls X (percentage of data loaded and available for reporting use [as of the last day of the month in question] X the population basis [as of the 15<sup>th</sup> day of the month in question]). The Contractor shall invoice the State on a monthly basis for Operations and the same formula shall be applied at the end of each succeeding month. See the examples in *Pro Forma* Contract Section C.3.b, as amended.

**NOTE: The Proposer may not enter zero (0) for, or leave blank, any of the Proposed Costs below. Each cost must reflect the vendor’s estimate of its true Monthly Cost Per Member to operate the TCDS during the time period in question.**

Cost Item Description	Proposed Cost					State Use ONLY
	Year 1	Year 2	Year 3	Optional Year 4	Optional Year 5	Sum of Yearly Per-Member Costs
Monthly Cost Per Member on the TennCare Rolls	\$0.10 (V)	\$0.10 (V)	\$0.10 (V)	\$0.10 (V)	\$0.10 (V)	
<b>Operations Evaluation Cost Amount:</b> <i>(For State use only; sum of all Operations Proposed Costs above)</i>						<b>\$0.50 (S)</b>

The Final Cost Proposal score is calculated on the following page.

<b>FINAL COST PROPOSAL SCORE</b>			
<i>(For State Use Only)</i>			
Summary Item Description	Evaluation Cost	State Use	
		Weight	Weighted Cost
Implementation Evaluation Cost Amount from Cost Schedule A: Implementation Cost Schedule	<b>\$250,000.00 (S)</b>	<b>1</b>	<b>\$250,000.00 (S)</b>
Operations Evaluation Cost Amount from Cost Schedule B: Operations Cost Schedule X 12 (months) X 1,250,000 (approx. number of TennCare recipients)  (The formula above is necessary to normalize the monthly per-member rate and the one-time fixed Implementation Cost.)	<b>\$7,500,000.00 (S)</b>  (E) In this example, this is the product of the formula: <b>.50 X 12 X 1,250,000</b>	<b>1</b>	<b>\$7,500,000.00 (S)</b>
<i>The F&amp;A Contract Coordinator shall use the evaluation cost amount derived from the proposed cost amounts above and the following formula to calculate the COST PROPOSAL SCORE. Calculations shall result in numbers rounded to two decimal places.</i>			
<b>Evaluation Cost Amount:</b> (sum of all weighted cost amounts above)			<b>\$7,750,000.00 (S)</b>
$\frac{\text{lowest Evaluation Cost Amount from all Proposals} = \$5,000,000.00 (S)}{\text{Evaluation Cost Amount being evaluated} = \$7,750,000.00 (S)} \times 100 \text{ (maximum section score)} = \text{SCORE:}$			<b>65 (S)</b>

**(E) For purposes of the example formula above, assume that another vendor's proposal resulted in an "Evaluation Cost Amount" of \$5,000,000.00, which was the "Lowest Evaluation Cost Amount from all Proposals."**